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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 001721

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TAGS: [ECON](#) [EAID](#) [AADP](#) [YM](#) [ECON](#) [COM](#)

SUBJECT: ECONOMIC REFORMS STALLED; IMF DELIVERS TOUGH MESSAGE TO ROYG

REF: A. SANAA 1537

[B.](#) SANAA 122

Classified By: DCM Nabeel Khoury for reasons 1.5 (b and d).

¶11. (C) Summary/Comment: Senior Ministry of Planning official Nabil Shaiban confirmed that President Saleh has decided to delay economic reform, but reiterated the ROYG's long-term commitment to implementation. The decision comes in spite of the recent IMF mission headed by Senior Economist Saad Chami, which heavily encouraged advancing the reforms. The delay is no surprise; for the average Yemeni, economic reform equals price increases and there has been no attempt by the ROYG to justify the reforms to the populace. Several contacts cited Parliament's newfound strength from the recent oil-scandal (ref a) and many MPs were outspoken in their opposition. Blunt messages from the IMF and donors on the necessity of economic reform may sway reform-minded ministers, but the tough political decision to implement reforms remains with President Saleh who seems to have calculated that the political climate is not ready for an economic austerity package. End summary/comment.

¶12. (SBU) Background: The economic reform package (ref b) consists of five measures designed to wean Yemen away from depending on oil for state revenue, trim a bloated civil service and enhance the investment climate. The five aspects are a) General Sales Tax (GST); b) reduction of the diesel subsidy; c) civil service reform to include wage increases; d) customs and tariff reform; and e) investment law reform. While not legally necessary, the ROYG has submitted the package to Parliament for approval. The reforms were widely expected to go into effect this summer. End background.

Whither Economic Reform?

¶13. (SBU) On 7/11 Ministry of Planning and International Cooperation Director General for the Americas and Europe Nabil Shaiban told Pol/Econoff that Saleh summoned Prime Minister Ba Jammal and Deputy Prime Minister and Minister of International Cooperation Sofan for intensive discussions over the diesel subsidy reduction and advised them that he has decided to "postpone implementation for a few months." Shaiban added that DPM Sofan told Saleh that "We need to rally public support on the positive aspects of the economic reforms." Shaiban said that Saleh wants to build public trust and counter opposition to the programs. Closing the subject, Shaiban reiterated that ROYG's plan to implement the economic reforms. He added that DPM Sofan asked British Department for International Development (DFID) to "study the socio-economic impact" of reducing the diesel subsidy.

IMF DELIVERS BLUNT MESSAGE TO ROYG

¶14. (SBU) On 7/7, IMF Middle East Director Saad Chami summarized to Ambassador the results of the IMF's latest consultations with ROYG officials, saying his team delivered a "blunt, direct message to ROYG officials that they must implement the reforms." ROYG officials cited "regional circumstances," especially the security situation to Chami as justification to delay most aspects of the reform package (ref a), except for the civil service wage increase. Chami said that IMF understands Yemen's "difficult circumstances" and accepted the ROYG argument, but warned officials that failure to implement reforms could produce serious economic consequences in 5-6 years.

¶15. (SBU) According to Chami, powerful businessmen convinced Parliament to delay GST implementation until July 1, 2005. However, Chami is encouraged that former Minister of Finance and present Shura Council member, Mohammed Junaid, was tapped to lead a GST study committee. The new committee will review the proposed GST and submit a report explaining its impact to President Saleh in March 2005. Chami commented that a year delay in the GST is not a significant setback because it is intended to compensate for projected state revenue losses due to declining oil production. In response to a question regarding ROYG transparency regarding GST implementation, IMF team member Bin Latifa interjected that the business community is "pretending not to understand" the GST, noting their real objection is that they would be subject to audits.

16. (SBU) Turning to the oil subsidy, Chami stated that high oil prices now cost the ROYG 5.5 percent of GDP or roughly 725 million USD per year to subsidize fuel. According to Chami, ROYG officials including PM Ba Jammal, Deputy Prime Minister and Minister of Finance Salami, DPM Sofan and the Head of the Shura Council, all acknowledged the ROYG's declining oil revenue and understood the necessity for serious economic reform. However, Chami added, "very powerful" people are blocking the diesel subsidy.

17. (SBU) Director of Payment Systems for the Central Bank of Yemen Omar Bazara confirmed on 7/16 to economic specialist that the IMF had delivered a tough message to ROYG officials. Bazara said that ROYG officials are keeping the negative information very quiet and were "astonished" at the poor economic picture portrayed by the IMF.

HULL